

Message Text

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ACTION EUR-25

INFO OCT-01 NEA-14 ISO-00 AID-20 CIAE-00 COME-00 EB-11

FRB-03 INR-11 NSAE-00 RSC-01 TRSE-00 XMB-07 OPIC-12

SP-03 CIEP-03 LAB-06 SIL-01 OMB-01 NSC-07 SS-20

STR-08 CEA-02 PA-04 PRS-01 USIA-15 L-03 H-03 DRC-01

DOT-00 /183 W

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R 091522Z SEP 74

FM AMEMBASSY BONN

TO SECSTATE WASHDC 4893

INFO AMCONSUL FRANKFURT

AMCONSUL HAMBURG

AMEMBASSY TEHRAN

AMEMBASSY BUCHAREST

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PASS AMEMBASSY BRUSSELS FOR FAGAN

E.O. 11652: N/A

TAGS: EFIN, EINV, GW

SUBJECT: VOLKSWAGEN INVESTMENT IN U.S.

REF: BONN 13498; HAMBURG L086, 752 AND 364

SUMMARY: VOLKSWAGEN BOARD OF DIRECTORS DELAYS DECISION
ON U.S. PLANT BECAUSE OF MANAGEMENT'S FAILURE TO SUPPLY
SUFFICIENT DETAIL AT SEPTEMBER 2ND BOARD MEETING.
VOLKSWAGEN MAY REQUEST AMERICAN MANAGEMENT CONSULTANT TO
MAKE FEASIBILITY STUDY. VOLKSWAGEN CURRENTLY HAS NO
PLANS FOR PLANT IN IRAN. END SUMMARY

1. ON SEPTEMBER 5, EMBASSY REPRESENTATIVE VISITED
DR. JOSEF RUST, CHAIRMAN OF THE BOARD OF DIRECTORS OF
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VOLKSWAGEN AG, AT HIS KASSEL OFFICE AT WINTERSHALL AG.

DR RUST IS ALSO CHAIRMAN OF THE BOARD OF DIRECTORS (AUFSICHTSRAT) OF WINTERSHALL AG AS WELL AS MANY OTHER MAJOR GERMAN COMPANIES. A MEETING OF THE BOARD OF DIRECTORS OF VOLKSWAGEN HAD BEEN HELD ON SEPTEMBER 2 IN WOLFSBURG, AND THE GERMAN PRESS HAD REPORTED THAT A DECISION CONCERNING THE OPENING OF A U.S. VOLKSWAGEN PLANT HAD BEEN DEFERRED INDEFINITELY BECAUSE OF LABOR UNION PRESSURE.

2. DR. RUST STATED THAT THESE STORIES WERE UNTRUE AND THAT LABOR RESISTANCE TO A U.S. VW PLANT OPENING, ALTHOUGH IT WAS VOICED BY THE LABOR REPRESENTATIVE ON THE BOARD, WAS NOT THE REASON FOR DELAYING A DECISION. HE STATED THAT THE BOARD OF MANAGEMENT (VORSTAND) HAD RECOMMENDED PLANT OPENING IN THE UNITED STATES TO THE BOARD OF DIRECTORS AT THE SEPTEMBER 2 MEETING. HOWEVER, THE MANAGEMENT BOARD WAS NOT ABLE TO FURNISH THE BOARD OF DIRECTORS DETAILED ENOUGH INFORMATION ON SUCH POINTS AS THE EXACT AMOUNT OF INVESTMENTS REQUIRED, THE PROFITABILITY OF THE OPERATION, PREFERRED SITE SELECTION, AND IMPACT ON EMPLOYMENT IN WOLFSBURG-TO ENABLE THE BOARD TO MAKE A DECISION AT THAT MEETING.

3. DR. RUST EXPRESSED HIS DISAPPOINTMENT IN THE INABILITY OF THE BOARD OF MANAGEMENT TO COME UP WITH THE DETAILED INFORMATION REQUIRED TO JUSTIFY A DECISION. HIS OWN FEELING IS THAT THE OPENING OF A U.S. PLANT IS INEVITABLE IF VW WANTS TO MAINTAIN ITS SHARE OF THE U.S. MARKET AND PROTECT THE MAJOR INVESTMENT IT HAS ALREADY MADE IN SETTING UP A DISTRIBUTION AND SERVICE ORGANIZATION IN THE UNITED STATES. HE WAS CRITICAL OF MR. LEIDING, THE CHAIRMAN OF THE MANAGEMENT BOARD WHO IS THE PRINCIPAL PROPONENT OF THE U.S. VENTURE BUT HAD MADE THIS RECOMMENDATION ON THE BASIS OF A "BY THE SEAT OF THE PANTS BUSINESS JUDGMENT" RATHER THAN ON THE BASIS OF SUPPORTING DETAILED FACTS AND FIGURES.

4. DR. RUST STATED THAT HE HAD RECOMMENDED TO THE MANAGEMENT BOARD (AND HE EXPECTED HIS RECOMMENDATION BE ACCEPTED) TO ENGAGE A MANAGEMENT CONSULTING FIRM, PRE-LIMITED OFFICIAL USE

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FERABLY AMERICAN TO MAKE A DETAILED FEASIBILITY STUDY OF A U.S. PLANT FOR VW WHICH WOULD INCLUDE A SITE SELECTION. HE PROMISED THE EMBASSY REPRESENTATIVE TO ADVISE HIM OF THE NAME OF THE MANAGEMENT CONSULTING FIRM AS SOON AS IT HAD BEEN SELECTED. DR. RUST IS PLANNING A TRIP TO THE UNITED STATES IN THE MIDDLE OF SEPTEMBER AND EARLY OCTOBER FOR THE PURPOSE OF VISITING SOME OF THE U.S. SUBSIDIARIES OF GERMAN COMPANIES OF WHICH HE IS A DIRECTOR, AS WELL AS THE U.S. VW HEADQUARTERS IN ENGLEWOOD CLIFFS, NEW JERSEY. DR. RUST STATED THAT A U.S. VW PLANT, ALTHOUGH INITIALLY JUST AN ASSEMBLY PLANT, WOULD EVENTUALLY BECOME A FULL PRODUCTION FACILITY COVERING MOST OF THE ELEMENTS OF THE AUTOMOBILE.

5. WHEN QUERIED ABOUT A POSSIBLE INVESTMENT BY THE SHAH OF IRAN IN VW, WHICH HAD BEEN REPORTED WIDELY IN THE GERMAN PRESS, HE STATED THAT THE SHAH HAD INDICATED AN LIMITED OFFICIAL USE

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INTEREST IN A VW PLANT IN IRAN FOR SOME TIME, BUT SO FAR SUCH A PROJECT HAD NOT SEEMED FEASIBLE AND THERE HAD BEEN NO NEW NEGOTIATIONS BY THE SHAH RECENTLY. HE ALSO STATED THAT NEGOTIATIONS WITH RUMANIA ABOUT A VW PLANT WERE AT A STANDSTILL.

6- IN ANOTHER CONTACT DURING DGB FOODWORKER UNION CONVENTION THIS WEEK IN WOLFSBURG, DR. PETER TRERK, VOLKSWAGEN BOARD OF MANAGEMENT MEMBER RESPONSIBLE FOR PERSONNEL MATTERS, COMMENTED TO EMBASSY LABOR ATTACHE THAT CURRENT PRESS SPECULATION ABOUT VW INVESTMENT IN PITTSBURGH AND SALE OF VW-OWNED WORKER HOUSING WAS UNTRUE. HE SAID ANY POSSIBLE VW PROJECT IN U.S. WOULD DEVELOP SLOWLY AND THE HIGHER PRODUCTIVITY AND LOWER LABOR COSTS WERE FACTORS NOW BEING CLOSELY ANALYZED BY VW MANAGEMENT.
HILLENBRAND

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